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No. 72-112

In the
# Supreme Court of the United States
OCTOBER TERM, 1972

ZEGERS, INC.,
*Petitioner,*

*vs.*

EDWARD A. ZEGERS,
*Respondent.*

## PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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*No.*

ZEGERS, INC.,

*Petitioner,*

*vs.*

EDWARD A. ZEGERS,

*Respondent.*

## PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner, Zegers, Inc. respectfully prays that a Writ of Certiorari issue to review the Judgment and Opinion of the United States Court of Appeals for the Seventh Circuit entered in this proceeding on March 20, 1972.

## OPINIONS BELOW

The Opinion of the Court of Appeals for the Seventh Circuit is reported at 458 F.2d 726, and is reproduced in Appendix A hereto. The Memorandum Opinion and Judgment entered November 23, 1970 by the trial court is not reported, and is reproduced in Appendix B attached hereto. The report of the Special Master filed with the trial

court on July 10, 1970 and considered by the trial court in its Memorandum Opinion is reproduced in Appendix C attached hereto.

## JURISDICTION

The Judgment of the Court of Appeals for the Seventh Circuit was entered on March 20, 1972. A timely petition for rehearing was denied on April 24, 1972. This Court's jurisdiction is invoked under 28 USC, Section 1254(1).

## QUESTION PRESENTED

When a plaintiff-patent owner cannot establish that he has been damaged by defendant's infringement, may he nevertheless recover a reasonable royalty?

## STATUTES HERE INVOLVED

Title 35 USC, Section 154, Contents and Term of Patent provides:

> "Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. (Amended July 24, 1965, Public Law 89-83, sec. 5, 79 Stat. 261.)"

Title 35 USC, Section 284, Damages, provides in pertinent part as follows:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate

for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

## STATEMENT OF THE CASE

A complete statement of the case is set forth in the report of the Master (Appendix C, p. 15a), and briefly stated, Edward A. Zegers sued Zegers, Inc. for infringement of patent No. 3,058,176. The case was tried to the District Court which found claims 1, 3, 4, 5 and 6 of the patent in suit valid and infringed. An appeal was taken from the Judgment of the trial court, and the Court of Appeals reversed the District Court's decision as to claims 1, 3 and 4, but affirmed the finding of validity and infringement with respect to claims 5 and 6 (*Zegers* v. *Zegers, Inc.*, CA7 1966, 365 F.2d 156). Following the mandate, a new Judgment was entered on December 21, 1966, which among other things, referred the case to a Special Master "to ascertain and report the amount of damages accruing to plaintiff by reason of defendant's infringement of claims 5 and 6 of patent No. 3,058,176;"

The master heard evidence pursuant to the reference and filed a report recommending that Judgment be entered in favor of Edward A. Zegers in the amount of $17,500.00 (Appendix C, p. 31a). Objections to the Special Master's report were filed by both parties, and the court entered its Memorandum Opinion entering Judgment for Edward A. Zegers in the sum of $34,950.19. (Appendix B, p. 14a). An appeal was taken from that Judgment to the United States Court of Appeals for the Seventh Circuit, and on March 20, 1972, the court handed down its Opinion and Judgment (Appendix A, p. 1a),

wherein the Court of Appeals reversed the Judgment of the trial court and remanded the case to the court for the entry of Judgment in the amount of $17,500.00 as recommended by the Special Master.

As found by the Master, in earlier litigation (*Zegers, Inc.* v. *Zegers,* CA 7 1962, 299 F.2d 769) Edward A. Zegers had been sued by Zegers, Inc. for infringement of patent No. 2,869,184 relating to a clip for combination weatherstrip and sash balance. In that litigation, patent No. 2,869,184, owned by Zegers, Inc., was held to be valid and infringed by the present plaintiff Edward A. Zegers, and he was enjoined from the further manufacture and sale of clips coming within the claims of that patent, and more specifically, Edward A. Zegers was enjoined from making, using or selling weatherstrip clips that are hooked on both ends.

The effect of both cases is that Edward A. Zegers has been successful in obtaining an injunction against Zegers, Inc. restraining the latter from the manufacture and sale of clips for combination sash balance and weatherstrip units having hooks on both ends and having a press-in feature covered by his improvement patent, but of a construction which plaintiff himself was specifically enjoined from the manufacture and sale by the earlier litigation on the basic patent. Because plaintiff-patent owner was specifically enjoined from the manufacture and sale of the clip sold by defendant and held to constitute an infringement of plaintiff's improvement patent, plaintiff could not have sustained any damages. The Master found, and his finding was approved by the trial court, that plaintiff's inability to market clips in competition with Zegers, Inc. was due to the injunction against him resulting from

the previous litigation. (Appendix C, p. 17a, footnote 24a) The Master found that at the hearings on the accounting, plaintiff did not attempt to prove the amount of profits lost by him, and thus plaintiff failed to prove any damages to him. (Appendix C, p. 17a) As noted above, if plaintiff was enjoined from making and selling the clips made and sold by defendant and held to infringe, then Edward A. Zegers could not have been damaged.

## REASONS FOR GRANTING THE WRIT

In *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 US 476 at 477 this court handed down its opinion concerning patent infringement, and in Section IV of the opinion, the court considered the interpretation to be placed upon the damage section of the Patent Statutes (35 USC, Sec. 284). A footnote to Section IV states that this part of the opinion expresses the views of Justices Brennan, Stewart, White and Goldberg, and that Mr. Justice Harlan considers that the matters dealt with in this section were not ripe for decision and should be left for determination in the future course of the pending litigation.

As will be shown hereinafter, the present case squarely presents the issue upon which only four of the Justices filed an opinion in the *Aro* case.

In Section IV of the *Aro* case, the question was raised as to the interpretation to be placed upon Title 35 USC, Sec. 284, and the court referred to an assmption that a judgment for patent infringement will necessarily result in a recovery of a reasonable royalty based upon the infringer's sales. Relative to this assumption, this court stated, (377 US 504-505):

> "It is presumably the language 'in no event less than a reasonable royalty' that has led to the assumption 377 US 505, noted above. **But that assumption ignores the fact—clear from the language, the legislative history, and the prior law—that the statute allows the award of a reasonable royalty, or of any other recovery, only if such amount constitutes 'damages' for the infringement.** It also ignores the important distinction between 'damages' and 'profits', and the relevance of this distinction to the 1946 amendment of the statute."

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* Throughout this petition emphasis supplied.

"'In patent nomenclature what the infringer makes is "profits"; *what the owner of the patent loses by such infringement is "damages"'. Duplate Corp.* v. *Triplex Safety Glass Co.*, 298 U.S. 448, 451 80 L ed 1274, 1278, 56 S Ct 792. Profits and damages have traditionally been all-inclusive as the two basic elements of recovery. Prior to 1946, the statutory precursor of the present Sec. 284 allowed recovery of both amounts, reading as follows:

"'Upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby. . . .' R.S. Sec. 4921, as amended, 42 Stat 392.

"By the 1946 amendment, Act of August 1, 1946, c. 726, Sec. 1, 60 Stat 778, 35 USC (p946 ed), §§ 67, 70, the statute was changed to approximately its present form, *whereby only 'damages" are recoverable.* The purpose of the change was precisely to eliminate the recovery of profits as such *and allow recovery of damages only.*"

This court also stated (377 Us 507):

"But the present statutory rule is that only 'damages' may be recovered. These have been defined by this Court as 'compensation for the pecuniary loss he (the patentee) has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts.' *Coupe* v. *Royer,* 155 US 565, 582, 89 L ed 263, 15 S.Ct 199. They have been said to constitute 'the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.' *Yale Lock Mfg. Co.* v. *Sargent,* 117 US 536, 552, 29 L ed 954, 960, S Ct 934. The question to be asked in determining damages is 'how much has the Patent Holder and Licensee suffered by the

> infringement. **And that question is primarily: had the infringer not infringed, what would Patent Holder-Licensee have made?'** *Livesay Window Co.* v. *Livesay Industries, Inc.*, supra, 251 F 2d, at 471."

This Court then went on to point that to determine the damages to be recovered from Aro, the Court must ask how much CTR suffered by Aro's infringement, "—how much would it have made if Aro had not infringed." After considering this matter, the court stated:

> "Their pecuniary position was not rendered one cent worse by the total infringement to which Aro contributed, and hence they are not entitled—on the assumption stated above as to the payment by Ford—to anything more than nominal damages from Aro."

It is clear from the foregoing quotations that four of the Justices have held that a patent owner under the patent damages statute may recover only such damages as he has sustained. The court specifically said that the ". . . question is primarily: had the infringer not infringed, what would Patent Holder-licensee have made?" The conclusion to be drawn from this language is that if plaintiff-patent owner had suffered no damages, then he is not entitled to any recovery from defendant.

Title 35 USC, Sec. 154, hereinbefore quoted provides that by the grant of a patent, a patentee acquires the right to exclude others from making, using or selling the invention. It is important to bear in mind that this is the right to exclude others, and not the exclusive right to make, use and sell that which is covered by the patent. By this section and other implementing sections relating to patent infringement litigation, plaintiff-patent owner, upon being successful in litigation against an infringer, may obtain an injunction restraining the infringer from making and sell-

ing that which is covered by his patent. This is what the patent statute is intended to give to the patent owner. The damages statute, 35 USC Sec. 284 supplements the right to an injunction, *but only to the extent that a patentee may recover damages if he has been damaged.* Undoubtedly, this is on the theory that patent infringement being a tort, the owner of a patent may recover damages as he has sustained. A reasonable royalty should be substituted for damages only where the fact of damage has been established, and plaintiff's damages are not readily capable of specific ascertainment.

The Court of Appeals, in its opinion below, although attempting to rationalize the decision of this Court in *Aro,* reached legal conclusions directly contrary to the opinion of this court. The Court of Appeals stated:

> "In this case the master found that the plaintiff had not proven the amount of profits lost by him as a result of defendant's infringement." (Appendix A, p. 5a)
>
> • • •
>
> "Defendant argues that plaintiff may never recover a reasonable royalty without proving that he was in fact damaged by the infringement. Defendant contends that plaintiff could not, in any event, have sold the infringing clips because they embodied a feature of defendant's patent. Although the facts are disputed we assume *arguendo* that plaintiff suffered no actual damages in the form of lost sales; we hold that he is nevertheless entitled to recover a reasonable royalty."

The Court of Appeals also held:

> • • •
>
> "If the patentee is a manufacturer, he may prove his damages by evidence of lost sales and profits. But if such proof is inadequate, or if he does not himself

sell the product, he may nevertheless be injured by the unlicensed practice of his invention. The reasonable royalty which he might lawfully have collected from the infringer if he had been a licensee may then be the measure of damages."*

It is clear from a reading of the opinion of the Court of Appeals that the Court reaches a conclusion directly contrary to that reached by this Court where it held in the *Aro* case:

* * *

"But that assumption ignores the fact—clear from the language, the legislative history, and the prior law—that the statute allows the award of a reasonable royalty, or of any other recovery, only if such amount constitutes 'damages' for the infringement (377 US 505)."

To illustrate the effect of the opinion of the Court of Appeals, we pose a hypothetical situation in which X (a United States citizen residing in Paris) is possessed of $100,000,000.00 plus a United States patent all of which he acquired by inheritance five years ago. He has never been engaged in the manufacture and sale of any product covered by the patent, nor has he attempted to license the patent to anyone. He is not even aware of the extent of the coverage of the patent and does not particularly care about the fact that he owns the patent. He is then told that

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* This Court has held:

*"Actual damages must be actually proved, and cannot be assumed as legal inference from any facts which amount not to actual proof of the fact.* What a patentee 'would have made, if the infringer had not interfered with his rights,' is a question of fact and not 'a judgment of law.' *The question is not what speculatively he may have lost, but what actually he did lose* * * *." *Seymour* v. *McCormick*, 8 How. (480) 485 (14 L.Ed. 1024) (1853).

someone in the United States is making and selling something coming within the claims of his patent, and X responds immediately,—"sue the infringer". A suit is brought, the patent is held valid and infringed, an injunction is issued against the infringer restraining any further infringement. The question is posed, —what if any damages may X recover for the infringement under the damage statute? Certainly he could not prove any damage. May a reasonable royalty then be substituted? Under the language of this Court in the *Aro* case, no reasonable royalty could be substituted unless the amount of the reasonable royalty constituted "damages" for the infringement. The Court of Appeals below held that even absent proof of actual damages, plaintiff-patent owner is entitled to recover a reasonable royalty. Under the *Aro* case X would receive nominal damages only. Under the opinion of the court below X would receive a reasonable royalty.

The hypothetical situation outlined above is similar to the factual situation in this case. Since Edward A. Zegers *was specifically enjoined* from manufacturing and selling that which was held to be an infringement and that which was made and sold by defendant, then Edward A. Zegers cannot possibly have sustained any damage to him because of the infringement, and therefore, under the opinion of this court in the *Aro* case, no reasonable royalty should be substituted for damages.

It is submitted that this court should grant the writ of certiorari for the purpose of having a majority of this court consider the precise and important question as to whether or not under 35 USC § 284 a reasonable royalty may be substituted for damages when the fact of damages cannot be established and for the further purpose of reversing the opinion and judgment of the Court of Ap-

peals below, which contrary to the holding of this Court, holds that a reasonable royalty may be applied even though plaintiff-patent owner has suffered no actual damage. The Judgment against defendant in the amount of $17,500.00 payable to Edward A. Zegers as a reasonable royalty for the infringement by defendant should be reversed.

It is submitted that the question presented by this petition is a very important and fundamental question of patent law and should be decided by this Court. By the grant of a patent, the patent-owner obtains the right to exclude others from making, using and selling that which is covered by his patent. As in all other tort litigation, he should not be permitted to recover any damages other than those actually sustained. He should not be placed in the position of receiving a judgment for damages by way of a reasonable royalty, if in fact, he suffered no damage from defendant's infringement. This court properly construed the damage section of the patent statutes, but without a majority of the court joining in the opinion. It is submitted that this question should be determined by a majority of this court.

Respectfully submitted,

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## APPENDIX A

IN THE

## UNITED STATES COURT OF APPEALS

For the Seventh Circuit

SEPTEMBER TERM, 1971 — JANUARY SESSION, 1972

Nos. 71-1118, 71-1119

EDWARD A. ZEGERS,
*Plaintiff-Appellee-Cross-Appellant,*

v.

ZEGERS, INC.,
*Defendant-Appellant-Cross-Appellee.*

Appeal and Cross-Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

No. 63 C 1822

BERNARD M. DECKER, *Judge.*

March 20, 1972

Before DUFFY, *Senior Circuit Judge,* STEVENS, *Circuit* Judge, and GRANT, *Chief District Judge.*[1]

STEVENS, *Circuit Judge.* Patent litigation in the Zegers family has been continuous since 1959.[2] In consequence, each of the disputants has obtained a judgment sustaining the validity of his patent and enjoining the other from making and selling clips which embody features of both patents. Before the second injunction was entered, defendant was selling, or giving away, clips for use in mounting

[1] Chief District Judge Robert A. Grant of the Northern District of Indiana is sitting by designation.

[2] See *Zegers, Inc.* v. *Zegers,* 299 F.2d 769 (7th Cir. 1962), *cert. denied,* 369 U.S. 889; *Zegers* v. *Zegers, Inc.,* 365 F.2d 156 (7th Cir. 1966), *cert. denied,* 385 U.S. 948.

combination sash balance and weatherstrip units in window frames. After the injunction was entered, the district court appointed a special master to ascertain plaintiff's damages. He found that $17,500 represented a reasonable royalty. The district court ruled that plaintiff's recovery should have been measured by defendant's profits and increased the award to $34,950.

Defendant appeals, contending that the recovery should be measured by plaintiff's damages, which were nominal at best. Plaintiff cross-appeals, contending that he should recover (1) a reasonable royalty of $176,801 based on defendant's profits of $289,792 on its sale of the combination units, since the clips were used as a promotional item; (2) punitive damages, since the infringement was deliberate; and (3) costs. We think the master earned his fee of $6,250 and that the litigation should be terminated by the entry of judgment for $17,500 as he recommended.

We shall state briefly our reasons for rejecting the various alternative results which the parties discussed in their briefs.

1. *Recovery of defendant's profits.*

Relying on *Zysset* v. *Popeil Brothers, Inc.*, 318 F.2d 701, 705-708 (7th Cir. 1963), *cert. denied*, 376 U.S. 913, the district court held that plaintiff's recovery should be measured by "the amount of profit realized by the infringer."[3] He therefore increased the amount of the award to $34,950 without disturbing any of the findings of fact which underlay the master's calculation of $17,500 as a reasonable royalty.

*Zysset* does support the district court's determination, but the import of that case is necessarily qualified by the

[3] A.222. More precisely, the district court held that plaintiff should recover a reasonable royalty measured by defendant's entire profits from its disposition of infringing clips. Under the facts as found by the master, however, the court's holding was the practical equivalent of allowing recovery of the profits themselves.

Supreme Court's subsequent opinion in *Aro II*.[4] In Part IV of that opinion, Mr. Justice Brennan plainly stated that the Act of August 1, 1946, 60 Stat. 778, changed the preexisting law which had allowed a patentee to recover the infringer's profits as well as his own damages.[5] He

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[4] *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U.S. 476. Part IV of that opinion, 377 U.S. at 502-513, is most directly relevant to the issues presented here. Only four members of the Court, Justices Brennan, Stewart, White and Goldberg, expressly joined that part of the opinion, Mr. Justice Harlan having indicated that the damage issues were not yet ripe for decision. However, the dissenting opinion of Mr. Justice Black, with whom the Chief Justice, Mr. Justice Douglas, and Mr. Justice Clark joined, would appear to accept the reasoning of Part IV of Mr. Justice Brennan's opinion. See 377 U.S. at 523.

[5] "Profits and damages have traditionally been all-inclusive as the two basic elements of recovery. Prior to 1946, the statutory precursor of the present § 284 allowed recovery of both amounts, reading as follows:

> '[U]pon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby. . . .' R.S. § 4921, as amended, 42 Stat. 392.

By the 1946 amendment, Act of August 1, 1946, c. 726, §1, 60 Stat. 778, 35 U.S.C. (1946 ed.) §§ 67, 70, the statute was changed to approximately its present form, whereby only 'damages' are recoverable. The purpose of the change was precisely to eliminate the recovery of profits as such and allow recovery of damages only.

> 'The object of the bill is to make the basis of recovery in patent-infringement suits general damages, that is, any damages the complainant can prove, not less than a reasonable royalty, together with interest from the time infringement occurred, rather than profits and damages.' H.R. Rep. No. 1587, 79th Cong., 2d Sess. (1946), to accompany H. R. 5311, at 1-2; S. Rep. No. 1503, 79th Cong., 2d Sess. (1946), to accompany H. R. 5311, at 2.

cited with approval our decision in *Ric-Wil Co.* v. *E. B. Kaiser Co.*, 179 F.2d 401, 407 (7th Cir. 1950) as supporting his conclusion that the purpose of the 1946 change "was precisely to eliminate the recovery of profits as such and allow recovery of damages only. . . . [I]t is clear that under the present statute only damages are recoverable."[6]

In some situations the infringer's profits may constitute evidence tending to prove the amount of plaintiff's damages, *cf. Bigelow* v. *R.K.O. Radio Pictures*, 327 U.S. 251, 257-258, 260,[7] or be a relevant factor in the calculation of a reasonable royalty.[8] The portions of the *Zysset* opin-

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[5] (Continued)
There can be no doubt that the amendment succeeded in effectuating this purpose; it is clear that under the present statute only damages are recoverable." 377 U.S. at 505-506.

[6] *Ibid.* "Part IV of the majority decision in 'Aro II' should be regarded as the definitive case law on patent damages." Shur, Patent Enforcement, Misuse and Antitrust, p. 879.

[7] As this court said in *Ric-Wil Co.* v. *E. B. Kaiser Co.*:
"The language [of the 1946 change] appears to make it plain that profits realized by an infringer are not recoverable as such. 'General damages' is a broad term which no doubt may include numerous elements depending upon the circumstances of the case. And whether an infringer's profit is an element of such damages depends upon the facts of each individual case." 179 F.2d 401, 407 (1950).
As Mr. Justice Brennan noted in *Aro II*, 377 U.S. at 506, before the 1946 change, it was " 'immaterial that the profits made by the defendant would not have been made by the plaintiff.' 3 Walker, Patents (Deller ed. 1937), § 845, at 2186."

[8] It would, of course, be most unlikely that a licensee would be willing to pay 100% of his profits to the patentee in exchange for a license. Thus, permitting evidence of profits to be admitted to show what a willing purchaser of a license might be expected to pay as a royalty is quite

ion which recognized that profits may be admissible evidence on the damage issue are therefore consistent with the holding of *Aro II*. However, to the extent that *Zysset* holds or implies that the infringer's profits are themselves recoverable regardless of the extent of the patentee's actual damages, that case is inconsistent with the 1946 statute as construed in *Aro II* and is accordingly overruled.[9]

In this case the master found that the plaintiff had not proven the amount of protfis lost by him as a result of defendant's infringement. The defendant's profits were not used as a yardstick to measure plaintiff's own damages on the theory that plaintiff would have enjoyed those earnings if there had been no infringement. Without findings of fact supporting such a theory, the master therefore properly refused to allow a recovery of defen-

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[8] (Continued)
different from using profits as the measure of damages. In this case the district court purported to use the infringer's profits as the measure of a reasonable royalty; the practical effect of that holding was to allow the profits themselves to be recovered because the findings did not support the conclusion that a licensee would pay a patentee his entire profits from the disposition of infringing clips. See *Georgia-Pacific Corp.* v. *U. S. Plywood-Champion Papers, Inc.*, 446 F.2d 295 (2d Cir. 1971), *cert. denied*, 404 U.S. 870. In that case, after affirming by implication a district court decision that an infringer's profits did not constitute a proper measure of damages, 343 F.Supp. 500 (S.D.N.Y. 1965), the court specifically held it was a basic error to fix a reasonable royalty which did not allow the infringer "a reasonable profit after paying the suppositious royalty." 446 F.2d at 299.

[9] Since this opinion overrules *Zysset* v. *Popeil Brothers, Inc.*, 318 F.2d 701 (7th Cir. 1963), we have circulated the opinion to the active members of the court not on the panel. A majority of the court has voted not to rehear *en banc* the matter of overruling *Zysset*.

dant's profits, and the district court's modification of his award was error.[10]

2. *Nominal damages.*

Defendant argues that plaintiff may never recover a reasonable royalty without proving that he was in fact damaged by the infringement. Defendant contends that plaintiff could not, in any event, have sold the infringing clips because they embodied a feature of defendant's patent. Although the facts are disputed, we assume *arguendo* that plaintiff suffered no actual damages in the form of lost sales; we hold that he is nevertheless entitled to recover a reasonable royalty.

Defendant's argument to the contrary is based on *Aro II*. In that case Mr. Justice Brennan expressly refuted the assumption that if Aro was an infringer, it would necessarily be liable for a reasonable royalty. He stated:

> "It is presumably the language 'in no event less than a reasonable royalty' that has led to the assumption noted above. But that assumption ignores the fact—clear from the language, the legislative history, and the prior law—that the statute allows the award of a reasonable royalty, or of any other recovery, only if such amount constitutes 'damages' for the infringement. It also ignores the important distinction between 'damages' and 'profits,' and the relevance of this distinction to the 1946 amendment of the statute." 377 U.S. at 504-505.

That statement must be read in context. Aro was a contributory infringer, not a direct infringer. The con-

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[10] Furthermore, the facts from which the infringer's "profits" could be computed—and were computed by the district court—were before the master and considered by him. Though he did not squarely discuss the issue in terms of "profits," in finding 21 he used the facts to compute a "net sales value" to defendants of $33,309, which is only slightly less than the district court's determination of $34,950 profit.

tributory infringement consisted of Aro's sales of unpatented convertible tops to the direct infringer's customers. The patentee could not lawfully have exacted a royalty from Aro on those sales, if they had been made to licensees rather than to direct infringers. See 377 U.S. at 507-508. Accordingly, that contributory infringement did not cause the patentee any damage in the form of lost royalties which it was entitled to receive from Aro.

The patentee was, however, entitled to full compensation for the direct infringement. As Mr. Justice Brennan interpreted the record, it appeared that a settlement payment of $73,000 by Ford on account of sales prior to July 21, 1955, and an agreement to pay royalties on account of subsequent sales, almost certainly provided the patentee with such full compensation. On those facts, apart from the remote possibility that the pre-1955 damages exceeded $73,000, there could be no basis for any recovery from Aro as a contributory infringer.

*Aro II* is therefore consistent with our view that deprivation of royalty income which a patentee is entitled to receive from one who practices his invention constitutes a form of damages compensable under § 284 of the Patent Code.[11] If the patentee is a manufacturer, he may prove his damages by evidence of lost sales and profits. But if such proof is inadequate, or if he does not himself sell the product, he may nevertheless be injured by the unlicensed practice of his invention. The reasonable royalty which he might lawfully have collected from the infringer if he had been a licensee may then be the measure of damages.

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[11] This is certainly a fair reading of the statutory language. Section 284 provides in part:

> "Upon a finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

In this case the special master's calculation of a reasonable royalty of $17,500 was completely consistent with this analysis.

3. *Damages based on the sale of combination units.*

Plaintiff contended that a reasonable royalty should be at least 250% of the net sales price of defendant's infringing clips. He argued that the clips were used to promote the sale of combination weatherstrip and sash balance units. The master found, however, that the plaintiff had failed to prove that the decline in his sales of combination units was attributable to defendant's infringement,[12] and that the evidence relative to the sale of combination units was of no probative value in showing what a willing buyer would pay, or a willing seller would accept, for a license to make, use and sell the infringing clips.[13] The district court accepted the master's findings on this issue. Accordingly, we find no basis for disagreeing with the master's refusal to compute the royalty rate on the basis of defendant's profits on the sale of combination units.

4. *Punitive damages.*

The master rejected plaintiff's request for treble damages. He found "that defendant was justified in challenging the validity of plaintiff's patent, as demonstrated by the Court of Appeals decision holding claims 1, 3 and 4 of the patent invalid. . . ." (A. 211) The district court agreed.

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[12] The master identified other factors, such as the injunction against plaintiff's infringement of defendant's patent, as explaining plaintiff's loss of business.

[13] The record indicated that neither of the parties would have granted a license to the other; the license from the plaintiff would have permitted a third party to sell clips embodying plaintiff's press-in feature but not the hooks covered by defendant's patent.

We are satisfied that this appraisal of the litigation was well within the district court's and the master's discretion.

5. *Costs.*

The question of costs is squarely covered by the last paragraph of *Zysset*, which holds that the mandatory language of 35 U.S.C. § 288 means exactly what it says. 318 F.2d at 708. We again reaffirm that holding. See *Bishman Mfg. Co.* v. *Stewart-Warner Corp.*, 380 F.2d 336, 340 (7th Cir. 1967).

The judgment of the district court is reversed and the case is remanded for the entry of judgment in the amount of $17,500 as recommended in the special master's report. Each party shall bear his own costs on this appeal.

## APPENDIX B

In the United States District Court
for the Northern District of Illinois
Eastern Division

Edward A. Zegers,
Plaintiff,
vs.
Zegers, Inc.,
Defendant.
No. 63 C 1822.

MEMORANDUM OPINION
(Entered November 23, 1970)

This is a review of an accounting conducted by a Special Master appointed pursuant to Federal Rules of Civil Procedure, § 53. The accounting follows a judgment which held defendant, Zegers, Inc., liable for the infringement of five claims of a patent belonging to plaintiff, Edward A. Zegers. On appeal, the district court's decision that three of the claims were valid and infringed was reversed. *Zegers* v. *Zegers, Inc.*, 365 F.2d 156 (7th Cir. 1966), *cert. denied*, 385 U.S. 948 (1966). However, the Court of Appeals affirmed the finding that two other claims were valid and infringed. *Zegers* v. *Zegers, Inc., supra* at 160-162. It is those two claims, Numbers 5 and 6, which the Special Master inquired into in his accounting for damages.

Claims 5 and 6 involve press-in mounting clips for use with combination weatherstrip and sash balance units in window frames. The virtue of the invention is that weatherstrip and sash units can be mounted in window frames without the use of nails. By using the patented clips, they can merely be snapped into place.

The measure of damages for infringement is stated in 35 U.S.C., §284:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and cost as fixed by the court."

The Master found that plaintiff had offered little proof of compensatory damages. Instead, the central issue was what constituted a "reasonable royalty for the use made of the invention by the infringer". The Master concluded, upon all the evidence, that $17,500 constituted a reasonable royalty. Both parties take exception, plaintiff on the ground that the figure is too low, and defendant on the ground that the figure is too high.

The only evidence found by the Master to have substantial probative value in determining what constituted a reasonable royalty was that relating to defendant's sale and distribution of the infringing clips. Between the date the patent on claims 5 and 6 was issued to plaintiff and the date defendant was enjoined from infringing the patent, a total of 7,072,073 clips were distributed by defendant. Of those, approximately 52.9 per cent sold as part of the sash unit; the remaining 47.1 per cent were given away as promotional devices. The cost to defendant of manufacturing each clip was $.006. The sale price was $.01 per clip, hence defendant realized a profit of $.004 per unit.

Given the above facts, the proper measure of a reasonable royalty in this case is the amount of profit realized by the infringer. *Zysset* v. *Popeil Brothers, Inc.*, 318 F.2d 701, 706-708 (7th Cir. 1963), *cert. denied*, 376 U.S. 913 (1964); *England* v. *Deere & Company*, 221 F.Supp. 319, 322-323 (S.D. Ill. 1963). With so little probative evidence presented at the accounting hearing on the issue of a reasonable royalty, it is proper and indeed necessary to resort to figures demonstrating profits realized by the infringer on the sale of the infringing product. As the court stated in *Zysset* v. *Popeil Brothers, Inc., supra* at 706:

Similarly, plaintiff is not entitled to recover his costs in this court. Since three of the five claims were held invalid by the Court of Appeals, and no disclaimer of the invalid claims was entered prior to commencement of the action, no costs can be recovered by plaintiff. 35 U.S.C. 288; *Zysset* v. *Popeil Brothers, Inc., supra* at 708; *Bishman Manufacturing Co.* v. *Stewart-Warner Corp.*, 380 F.2d 336, 340 (7th Cir. 1967), *cert. denied*, 389 U.S. 897 (1967).

Conclusion

The court hereby adopts all findings of fact made by the Master, except his finding No. 21(f), and overrules all objections filed by either party to the report, except plaintiff's objection No. 1(j), which is sustained to the extent indicated in this opinion.

The court wishes to thank Mr. Theodore R. Scott for his services as Special Master in this accounting. His request for compensation in the sum of $6,250 is, under the circumstances, reasonable, and should be assessed against defendant. F.R.Civ.P., §53(a).

Accordingly, judgment is entered for plaintiff in the sum of $34,950.19 with interest from the date of this judgment. In addition, defendant is ordered to reimburse plaintiff for the $1,750 already paid to the Master, and to pay the Master the remaining $2,750.

Enter:

BERNARD M. DECKER
United States District Judge

Dated: November 23, 1970

## APPENDIX C

### REPORT OF SPECIAL MASTER THEODORE R. SCOTT APPOINTED TO ASCERTAIN PLAINTIFF'S DAMAGES
(Filed July 10, 1970)

1. This accounting has been conducted pursuant to paragraph 10 of the "Judgment on Mandate" entered in this case by Judge Bernard M. Decker on December 21, 1966, which directed that the cause be referred to this Special Master "to ascertain and report the amount of the damages accruing to plaintiff by reason of defendant's infringement of claims 5 and 6 of . . . Patent No. 3,058,176".

2. Following the reference of the case to this Master, the parties spent several months in discovery proceedings which included written interrogatories, the production and inspection of voluminous records, and the taking of some depositions. During the discovery period, the Master held two hearings to settle disagreements between the parties relating to the discovery proceedings and ruled on other disagreements that were submitted on motions and briefs, without oral hearings.

3. Evidentiary hearings were conducted by the Master on July 16 and 22, 1968, and January 28 through 30, February 18 and March 17, 1969, at which both oral testimony and documentary exhibits were presented; thereafter, lengthy and thorough briefs were submitted by counsel for the parties.

#### The Background of This Accounting

4. Plaintiff and defendant are competitors in the marketing of combination weatherstrip and sash balance units and related products. Plaintiff, the former sales manager of defendant corporation (the stock of which is owned by some of plaintiff's relatives), is now the national sales representative for Master Metal Strip Service, Inc., a manufacturer of combination weatherstrip and sash bal-

ance units. The defendant manufactures similar weatherstrip and sash balance units and related products, and markets them through manufacturers' representatives.

5. The complaint in this action, filed on October 10, 1963, charged defendant with infringement of claims 1, 3, 4, 5 and 6 of plaintiff's patent No. 3,058,176, issued October 16, 1962, entitled "Means for and Method of Detachably Mounting Sash Guilding Weatherstrips in Window Frames". Three of those claims (claims 1, 3 and 4) covered weatherstrip units having flanges in which slots were provided, so that the weatherstrip could be detachably mounted on a window frame or jamb through the use of metal clips with hooked ends. The remaining claims (claims 5 and 6) covered mounting clips provided with a barbed channel so formed that the clips may be manually pressed into slots in window jambs called "dado" grooves, thus making it unnecessary to nail them into position.

6. Following a trial, the District Court held claims 1, 3, 4, 5 and 6 of the patent in suit valid and infringed by defendant, but the Court of Appeals reversed the District Court's decision as to claims 1, 3 and 4 (*Zegers* v. *Zegers, Inc.* (7 Cir., 1966), 365 F.2d 156). Thus the only invention on which the plaintiff is entitled to recover damages in this accounting consists of a weatherstrip mounting clip having the press-in feature covered by claims 5 and 6 of patent No. 3,058,176.

7. The weatherstrip-receiving clips covered by claims 5 and 6 of the patent in suit relate to improvements in the flat nail-on clips provided with hooks on both ends disclosed in defendant's prior patent No. 2,869,184, issued January 20, 1959, entitled "Clip for Combination Weatherstrip and Sash Balance," the claims of which were held valid and infringed by plaintiff in an earlier action between the parties to this litigation (*Zegers, Inc.* v. *Zegers* (7 Cir., 1962), 299 F.2d 769). As a result of the decision in that case, the plaintiff in this action was enjoined from making, using or selling weatherstrip-receiving clips that are hooked on both ends.

8. Following the decision of the Court of Appeals in this case, the defendant was enjoined from making, using or selling weatherstrip-receiving clips having the press-in feature covered by claims 5 and 6 of the patent in suit.

9. Since the issuance of the injunction in this case, neither plaintiff nor defendant has been able to market a weatherstrip-receiving clip provided with (a) hooks on both ends—the feature covered by defendant's patent No. 2,869,184—and (b) the press-in channel construction covered by the claims of plaintiff's patent No. 3,058,176. Thus, defendant now offers a flat nail-on clip having hooks on both ends, and plaintiff supplies a press-in clip that has a hook on only one end.

Plaintiff's Position Regarding Damages, Expenses and Costs Claimed by Him

10. At the hearings on this accounting, plaintiff did not attempt to prove the amount of profits lost by him as a result of defendant's manufacture, use or sale of clips embodying the press-in feature covered by claims 5 and 6 of the patent in suit (hereinafter referred to as "defendant's infringing clips"), asserting that the expense of presenting such proof was prohibitive.*

11. In this accounting, therefore, plaintiff bases his claim for damages on the statutory provision that:

> "*Upon finding for the claimant the court shall award* the claimant *damages* adequate to compensate for the infringement but *in no event less than a reasonable royalty* for the use made of the invention by the in-

* Plaintiff did, however, present evidence showing that various customers to whom he had previously sold combination weatherstrip and sash balance units had stopped purchasing such products from him and begun buying them from defendant, during the period when defendant was offering its infringing clips, for the purpose of showing that he had suffered substantial actual damage by reason of defendant's infringement of his patent.

fringer, together with interests and costs as fixed by the Court" (35 U.S.C. § 284; emphasis supplied.**

12. At the hearings, however, plaintiff nevertheless offered evidence of defendant's sales of combination weatherstrip and sash balance units with which its infringing clips were used or usable, asserting that such evidence is relevant in determining what constitutes a reasonable royalty on the use made of his invention by the defendant. The decision of our Court of Appeals in *Union Carbide Corporation* v. *Graver Tank & Mfg. Co.* (7 Cir., 1960), 282 F.2d 653, 671-672, supports the use of such evidence for that purpose, and it was received on that basis.

13. Plaintiff contends that, upon all the evidence presented at the hearings on this accounting, a reasonable royalty on the use made of his invention by defendant should be at least 250% of the net sales price of defendant's infringing clips.

14. Plaintiff further claims that the evidence shows defendant's infringement of plaintiff's patent was willful, and that plaintiff should therefore be awarded three times the amount which is determined to constitute a reasonable royalty on the use made of his invention by defendant, under the statutory provision that ". . . the court may increase the damages up to three times the amount found or assessed" (35 U.S.C., § 284) and the decisions applying that provision in cases where defendnts were found to have been conscious and willful infringers.

15. Finally, plaintiff claims that he should be awarded his expenses, including attorney's fees, incurred in applying for and obtaining orders requiring defendant to file additional or supplemental answers to certain interrogatories propounded to it by him, together with his taxable costs incurred in this accounting.

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** As subsequently noted, plaintiff also claims that he should be awarded three times the amount of damages which are determined to constitute a reasonable royalty, under the provisions of 35 U.S.C., § 284.

Defendant's Position Regarding Damages, Expenses and Costs Claimed by Plaintiff

16. Defendant contends that, even though claims 5 and 6 of plaintiff's patent have been held valid and infringed by defendant, plaintiff is not entitled to any recovery on this accounting because the evidence fails to show that plaintiff suffered any actual damage from defendant's infringement of his patent. In support of this contention, defendant points out that, at all times subsequent to the issuance of the patent in suit, plaintiff himself was subject to an injunction prohibiting him from making, using or selling clips like the defendant's clips that were held to infringe the patent in suit, from which defendant argues that—since plaintiff could not himself have sold or distributed the infringing clip—plaintiff cannot have been damaged by defendant's sale or distribution of that clip. Defendant's argument, however, ignores the uncontroverted evidence that plaintiff, though enjoined from marketing a clip having hooks on both sides, did market a so-called half clip having the press-in channel construction covered by claims 5 and 6 of the patent in suit (i. e., a press-in clip having a hook on only one end) in competion with defendant's infringing clip. Thus, the fact that plaintiff was enjoined from marketing clips that were identical to defendant's infringing clips is beside the point, for during the period when both plaintiff and defendant marketed clips having the press-in feature covered by claims 5 and 6 of the patent in suit, plaintiff necessarily sustained actual damage, in a monetary or competitive sense, each time any customer desiring clips having the patented press-in construction obtained them from defendant rather than from plaintiff.

17. Even if plaintiff suffered no actual monetary loss or competitive damage from defendant's infringement of the patent in suit, moreover, plaintiff is nevertheless entitled to recover from defendant an amount not less than a reasonable royalty on the use made of his invention by defendant, for § 284 of the Patent Act expressly states:

"*Upon finding for the claimant the court shall award* the claimant *damages* adequate to compensate for the

infringement but *in no event less than a reasonable royalty* for the use made of the invention by the infringer, together with interests and costs as fixed by the court" (35 U.S.C., § 284; emphasis supplied).

The statutory language is unequivocal, and it does not say that a patent owner's right to recovery from an infringer is conditioned upon a showing that the patent owner sustained actual monetary loss or competitive damage from the defendant's infringement of his patent; on the contrary, the statute clearly contemplates that the patent owner shall recover either (a) damages adequate to compensate him for the defendant's infringement (in a case where those damages are susceptible of proof and exceed a reasonable royalty) or (b) a reasonable royalty on the use made of his invention by the defendant (in a case where the patent owner's actual monetary loss or competitive damage is not susceptible of proof or is less than a reasonable royalty). In short, any unlicensed or otherwise infringing use of a patented invention constitutes damage to the patent owner, in a legal sense, irrespective of whether he sustains any actual monetary loss or competitive disadvantage from the infringement.*

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* Significantly, defendant has cited no case in which an adjudicated infringer was let off without the payment of any damages to the patent owner on the ground that the infringer's use of the patented invention had not caused any monetary loss or competitive disadvantage to the patent owner; indeed, the decision principally relied on by defendant not only fails to support but convincingly rebuts defendant's argument, as shown by the following excerpt from the Court's opinion:

> *"There still is a strong public policy against allowing the victim of infringement to go remediless merely because he is unable to establish his actual pecuniary loss.* However, in 1946, Congress expressed dissatisfaction with the granting of the infringer's profits as a 'substitute' remedy. *Congress chose to rely on the fixing of a reasonable royalty as a means of ensuring that the patent owner would not be deprived of a remedy"* (*Georgia-Pacific Corp.* v. *United States Plywood* (S.D.N.Y., 1965), 243 F.Supp. 550, 540-541; emphasis supplied).

In a footnote to that statement, the Court observed that:

> "*Both the 1946 Act and § 284* of the 1952 codification *are explicit in assuring the owner of an infringed patent that his minimum recovery is a reasonable royalty*" (243 F.Supp. 541; emphasis supplied).

18. Defendant also denies it was a conscious or willful infringer of the patent in suit, asserting that the Court of Appeals decision (holding claims 1, 3 and 4 invalid) proves it was fully justified in challenging the validity of plaintiff's patent.

19. Finally, defendant denies that plaintiff is entitled to recover his expenses, including attorney's fees, incurred in obtaining the orders requiring defendant to file additional or supplemental answers to plaintiff's interrogatories; defendant also contends that, because the Court of Appeals held claims 1, 3 and 4 of the patent in suit invalid, plaintiff is precluded from recovering any costs in this case, under the statutory provision that a "patentee shall recover no costs unless a disclaimer of the invalid claim has been entered at the Patent Office before the commencement of the suit" (35 U.S.C., § 288), as interpreted by our Court of Appeals in *Zysset* v. *Popeil Brothers, Inc* (7 Cir. 1963), 318 F.2d 701, and *Bishman Manufacturing Co.* v. *Stewart-Warner Corporation* (7 Cir., 1967), 380 F.2d 336.

The Determination of a Reasonable Royalty on the Use Made of Plaintiff's Invention by Defendant

20. Although plaintiff bases his claim for damages in this accounting on the reasonable royalty provision of § 284 of the Patent Act, the record contains very little evidence which is relevant in determining what constitutes a reasonable royalty in this case, within the meaning of that statute. For example:

(a) Neither plaintiff nor defendant offered any expert testimony to establish a percentage rate or specific sum of money which would constitute a reasonable royalty on the use made of plaintiff's invention by defendant.

(b) Neither plaintiff nor defendant introduced any evidence showing a royalty rate or range of royalty rates generally adhered to in patent license agreements in the weatherstripping or any related field, although plaintiff—in response to a question from the Master—did testify that he had granted a royalty-free license under his patent in suit to Master Metal Strip Service, Inc. (the company which he represents as national sales representative) for "as long as I am associated with them" (Transcript of proceedings before Special Master, p. 543). Obviously, however, that license did not result from arms-length negotiations, but was based on the previously existing business relationship between plaintiff and master Metal Strip Service, Inc.

(c) Plaintiff not only testified that he would have been unwilling to grant defendant a license to distribute its infringing clip at either a 100% or 200% royalty on the net selling price of those clips, but said he had never reached a determination as to any figure at which he would have been willing to grant such a license to defendant, thus making it clear that he preferred to collect his 13% commission on Master Metal Strip's sales of unpatented combination weatherstrip and sash balance units (which netted approximately $1.00 per set) rather than a royalty—even a very high royalty—on the patented clips themselves (which netted only about one cent per clip).

(d) Defendant's vice president testified that defendant would have been willing to pay only "something in the order of $300 or $400 or $500 a year, strictly on the basis of the nuisance value" for a license under plaintiff's patent in suit (Transcript of proceedings before Special Master, p. 603).

(e) The testimony of plaintiff and defendant's vice president is of no probative value in showing what a willing buyer would pay, or a willing seller would accept, as a reasonable royalty for a license to make,

use or sell clips embodying the press-in construction covered by claims 5 and 6 of plaintiff's patent in suit*

(f) The evidence offered by plaintiff with respect to his loss and defendant's acquisition of specific customers is of no probative value in establishing a reasonable royalty on the use made of plaintiff's invention by defendant, for it fails to show that any of those customers stopped purchasing combination weatherstrip and sash balance units from plaintiff and began buying those products from defendant as a consequence of defendant's sale or distribution of weatherstrip-receiving clips having the press-in channel construction covered by claims 5 and 6 of the plaintiff's patent in suit. On the contrary, the testimony of defendant's vice president indicates that the loss or acquisition of those customers may have been the result of factors, such as management or personnel changes, in no way related to defendant's marketing of clips having the patented press-in feature, and the testimony of plaintiff himself establishes that the injunction prohibiting him from marketing clips having hooks on both ends (which issued at about the same

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* The testimony of plaintiff and defendant's vice president also maken it clear that neither plaintiff nor defendant conducted themselves as reasonably prudent businessmen would have done, under the circumstances which exist in this case. Thus, with plaintiff enjoined from marketing clips provided with hooks on both ends as a result of the first patent infringement suit between the parties and defendant enjoined from marketing clips having the press-in channel construction as a result of the present infringement action, it seems apparent that reasonably prudent businessmen would have entered into some type of cross-licensing arrangement giving each of them the right to market clips having both those features—thereby making it possible for their customers to obtain the clips in their most useful form, yet enabling plaintiff and defendant to retain a distinct competitive advantage over the ten to twelve other companies which compete with them in the sale of combination weatherstrip and sash balance units.

time defendant began marketing its infringing clips) had a very substantial adverse effect on his sales of combination weatherstrip and sash balance units.*

(g) The evidence as to defendant's sales of combination weatherstrip and sash balance units with which its infringing clips were used or usable, as well as the evidence of the profits made by defendant during the period it was distributing its infringing clips and its loss of the business of various customers after it was enjoined from selling the infringing clips, has no substantial probative value on the reasonable royalty issue for the same reason—i.e., the absence of any evidence establishing that the availability (or nonavailability) of clips having the press-in channel construction covered by claims 5 and 6 of the patent in suit was a factor which influenced purchasers to buy (or not to buy) combination weatherstrip and sash balance units from defendant.

(m) Finally, the evidence showing defendant's practices in granting discounts in varying amounts on the combination weatherstrip and sash balance units with which its infringing clips were used or usable, as well as its willingness to pay the freight charges for shipping these products to some customers on some pur-

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* Plaintiff's testimony regarding the impact of the injunction issued against him as the result of the previous litigation between the parties strongly suggests that his inability to market clips having hooks on both ends may well have been the principal factor in any loss of customers to defendant, since it is clear that clips having the press-in channel construction covered by claims 5 and 6 of the patent in suit were being offered to the trade by plaintiff at all times when defendant was marketing its infringing clip. Thus, a purchaser desiring to obtain combination weatherstrip and sash balance units and clips having the patented press-in channel construction could have obtained those products from either plaintiff or defendant; only a customer desiring clips provided with hooks on both ends was required to do business with defendant rather than plaintiff.

chases, has no probative value in determining what constitutes a reasonable royalty in this case, since there is no evidence that either of those practices was limited to, or in any way dependent on, the purchase of weatherstrip products with which defendant's infringing clips were sold or distributed.

21. The only evidence in the record which is deemed to have any substantial probative value in determining the amount which constitutes a reasonable royalty on the use made of plaintiff's invention by defendant is the evidence relating to defendant's sale and distribution of the infringing clips themselves. That evidence establishes:

(a) Between March, 1962, and the effective date of the injunction issued against it in this case, defendant sold or distributed a total of 7,490,516 clips of the type held to infringe claims 5 and 6 of plaintiff's patent; of that total, some 7,072,073 clips were sold or distributed after the patent in suit had issued and defendant had been charged with its infringement.

(b) The cost of defendant's infringing clips was .6¢ each, and it was stipulated that defendant's net sales price on the clips sold by it was 1¢ each.

(c) Defendant's records produced in the course of the discovery proceedings in this accounting establish that at least 47.1% of the 7,490,516 clips of the infringing type sold or distributed by defendant were distributed on a "no charge" or "no separate charge" basis, in conjunction with defendant's sales of combination weatherstrip and sash balance units with which the infringing clips were used or useable, and defendant's vice president testified that defendant had distributed those clips on a "no charge" basis as a means of obtaining or holding the business of purchasers of such weatherstrip products.

(d) Applying the 47.1 "give-away" percentage figure to the 7,072,073 infringing clips sold or distributed by defendant after it was charged with infringement of plaintiff's patent in suit, it appears that

at least 3,330,946 infringing clips were distributed by defendant on a "no charge" or "no separate charge" basis, and that the net sales value to defendant of the infringing clips so distributed by it was at least $33,309.46 (computed at defendant's net sales price of 1¢ per clip).

(e) Defendant's "give-away" of infringing clips having a net sales value of at least $33,309.46 as a sales promotional tool indicates that defendant—if it had considered that a license was necessary in order for it to have such clips available for use as a sales promotional tool—would have been willing to pay $35,000 for such a license over the period during which it distributed its infringing clips; that evidence does not, however, indicate that defendant would have been willing to pay $35,000 over that period for a license under plaintiff's patent in suit, for it is undisputed that defendant's infringing clips embodied the invention of defendant's own earlier patent covering a clip provided with hooks on both ends as well as the press-in channel construction covered by claims 5 and 6 of the plaintiff's patent, and—although the record contains no customer testimony as to the relative importance of those two features—the testimony of plaintiff himself clearly indicates that the first feature was fully as important as the second, in creating a demand for the clips.*

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* There is also evidence that defendant's infringing clips were covered by a third patent owned by defendant (Patent No. 3,122,798, issued March 3, 1964, entitled "Clip for Combination Weatherstrip and Sash Balance Unit"), but the flexible guide finger feature covered by that patent is not deemed to have contributed substantially to the commercial acceptability of defendant's infringing clips, for the record contains evidence indicating that feature to be of dubious utility, at best; moreover, that patent has never been adjudicated ,and the Master accordingly disregarded it in determining the amount which constitutes a reasonable royalty on the use made by defendant of plaintiff's invention.

(f) Based upon all of the evidence, the Master finds that $17,500 constitutes a reasonable royalty on the use made by defendant of the invention covered by claims 5 and 6 of plaintiff's patent in suit.

Plaintiff's Claim for Treble Damages

22. The complaint in this action charged that defendant "has deliberately and willfully infringed, and is deliberately and willfully infringing" plaintiff's patent in suit (Complaint, ¶ 5), and the prayer for relief asked the District Court to find defendant guilty of willful infringement and "grant the plaintiff an accounting for damages and a judgment that the damages . . . be trebled"; defendant's answer denied plaintiff's allegations of willful infringement (Answer, ¶ 3). Thus, one of the issues presented by the pleadings at the time this action was tried on its merits was whether defendant had willfully infringed plaintiff's patent.

23. At the trial, defendant stipulated that, if claims 1, 3, 4, 5 and 6 of plaintiff's patent in suit were valid, defendant's slotted weatherstrip products and press-in clips infringed them, and defendant's vice president testified that, when defendant first began experimenting with and testing its infringing clips, it was aware that plaintiff was already on the market with a press-in clip of the type shown in the drawings of the patent in suit.

24. Following the trial, the District Court filed a memorandum opinion holding claims 1, 3, 4, 5 and 6 of plaintiff's patent valid and infringed by defendant. Although that opinion did not contain any finding on or discussion of plaintiff's charge of willful infringement, its concluding paragraph stated:

> "Plaintiff is entitled to the relief prayed for in his complaint. Plaintiff's counsel will prepare and submit a proposed judgment order within twenty days."

Like the opinion itself, however, the judgment entered pursuant to the opinion contained no reference to the will-

ful infringement issue, but simply directed that plaintiff recover from defendant "the damages which plaintiff has sustained by reason of the defendant's infringement . . . and . . . its taxable costs," and that the case be referred to a special master "to ascertain and report the amount of the damages" (Judgment entered August 27, 1965, ¶¶ 8 and 9).

25. Upon appeal, the Court of Appeals for the Seventh Circuit reversed the District Court's judgment in so far as it held claims 1, 3 and 4 of the patent in suit valid, but affirmed the District Court's holding that claims 5 and 6 of the patent were valid and had been infringed by defendant, in an opinion which did not discuss or refer to plaintiff's charge that defendant's infringement had been willful (*Zegers* v. *Zegers, Inc.* (7 Cir., 1966), 365 F.2d 156).

26. The Judgment on Mandate entered by the District Court, following the remand of the case to it from the Court of Appeals, also contains no holding on or reference to the question of willful infringement; it simply adjudges that "defendant has infringed claims 5 and 6 of that patent in suit," orders that a permanent injunction be issued enjoining such infringement, directs that "plaintiff recover from the defendant the damages which plaintiff has sustained by reason of the defendant's infringement," and refers the case to this Master "to ascertain and report the amount of the damages accruing to plaintiff by reason of defendant's infringement" (Judgment on Mandate, ¶¶ 6, 7, 8 and 10).

27. In this accounting, defendant's vice president testified that defendant not only knew about plaintiff's press-in clip of the type shown in the drawings of the patent in suit before defendant came out with its infringing clip, but also said defendant knew that plaintiff had a patent application pending "On the feature of the press-in, not the whole clip" prior to the time it came with its infringing press-in clip (Transcript of proceedings before Special Master, pp. 221-223).

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28. Plaintiff maintains that the testimony of defendant's vice president, coupled with defendant's failure to offer any evidence showing it had been advised by counsel that plaintiff's patent in suit was invalid, requires a finding that defendant willfully infringed claims 5 and 6 of the patent in suit; defendant asserts, however, that the Court of Appeals decision holding claims 1, 3 and 4 of the patent invalid conclusively proves that it was justified in challenging the validity of the patent and precludes a finding that it was guilty of willful infringement.

29. The Master considers that the District Court's failure to hold defendant's infringement willful, in its memorandum opinion, its original judgment or its judgment on mandate, constitutes a rejection of plaintiff's charge that defendant deliberately and willfully infringed plaintiff's patent, and that the reference of the case to this Master does not authorize the Master to determine that issue.

30. In the event the District Court considers that the issue of willful infringement is properly before the Master for determination in this accounting, the Master finds that defendant was justified in challenging the validity of plaintiff's patent, as demonstrated by the Court of Appeals decision holding claims 1, 3 and 4 of the patent invalid, and that defendant's infringement of claims 5 and 6 of the patent was not willful, within the meaning of the decisions of our Court of Appeals interpreting § 284 of the Patent Act, and does not warrant an award of treble damages to plaintiff under that statute.

Plaintiff's Claim for Expenses, Including Attorney's Fees, Incurred in Obtaining Supplemental Answers to Interrogatories

31. During the course of the discovery proceedings in this accounting, plaintiff twice moved for the imposition of sanctions against defendant under Rule 37 of the Federal Rules of Civil Procedure, on the ground that defendant had filed inadequate answers to certain of plaintiff's interrogatories (in the first instance) and had failed to comply with the Master's February 12, 1968 order entered

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as a result of its first motion (in the second instance). Formal orders were entered by the Master on February 12 and July 30, 1968, as a result of those motions; those orders directed defendant to file supplemental interrogatory answers or furnish additional information to the plaintiff, but in neither instance did the Master find that the defendant's filing of the interrogatory answers which occasioned the motions constituted a refusal to make discovery or deliberate disobedience of the Master's previous orders, or that defendant's conduct "was without substantial justification" within the meaning of Rule 37 as it then existed. On the contrary, as shown by the colloquy at the close of the hearing held on July 22, 1968, the Master concluded that the dispute between the parties regarding the adequacy of the supplemental information furnished by defendant in response to the Master's February 12 order was due to the differing interpretations which they placed on the meaning of one of the provisions in that order, and that defendant's interpretation could not be regarded as arbitrary or unreasonable (Transcript of proceedings before Special Master, pp. 164-181).

32. In plaintiff's main brief, plaintiff has again asked for the imposition of sanctions against defendant—specifically that plaintiff be awarded his expenses, including attorney's fees, incurred in applying for and obtaining the orders requiring defendant to file additional interrogatory answers and otherwise supplement information previously furnished to plaintiff during the discovery phase of the accounting.

33. The Master does not consider that the defendant acted in bad faith in filing the interrogatory answers or furnishing the information which the Master subsequently directed it to supplement, in the orders entered on February 12 and July 30, 1968, but finds that defendant acted in good faith in filing such answers and furnishing such information and that plaintiff's claim for his expenses, including attorney's fees, incurred in obtaining the orders requiring defendant to file supplementary answers and information should accordingly be rejected.

### Defendant's Claim That Plaintiff Is Not Entitled to Recover Any Costs

34. Relying on the decisions in *Zysset* v. *Popeil Brothers, Inc.* (7 Cir., 1963), 318 F.2d 701, and *Bishman Manufacturing Co.* v. *Stewart-Warner Corporation* (7 Cir., 1967), 380 F.2d 336, defendant argues that plaintiff is not entitled to recover his taxable costs in this accounting, inasmuch as the Court of Appeals held claims 1, 3 and 4 of the patent in suit invalid and § 288 of the Patent Act provides that a "patentee shall recover no costs unless a disclaimer of the invalid claim has been entered at the Patent Office before the commencement of the suit".

35. Plaintiff maintains that the matter of costs is not properly before the Master under the order of reference, which states:

> "That this cause be referred to Theodore R. Scott of 135 South LaSalle Street, Chicago, Illinois, a member of the bar of this court, who is appointed Special Master in this case, to ascertain and report the amount of the damages accruing to plaintiff by reason of defendant's infringement of claims 5 and 6 of said Letters Patent No. 3,058,176; and that the said Master shall have full power and authority, as provided under the law, including the Federal Rules of Civil Procedure, and the local rules of this court, to regulate all proceedings in every hearing before him and to require the production before him of evidence upon all matters embraced in this reference, and he shall forthwith proceed with said reference, and take and receive the evidence presented and report his findings and conclusions thereon" (Judgment on Mandate, ¶ 10).*

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*Plaintiff observes that there is nothing in the quoted order of reference authorizing the Special Master to consider the matter of costs, or to express any conclusions relative thereto; the same observation might be made with respect to the Master's authority to consider and decide the question of willful infringement.

36. Paragraph 8 of the Judgment on Mandate entered by the District Court on December 21, 1966, expressly provides that "plaintiff recover his taxable costs in this Court".

37. The Master considers that paragraph 8 of the Judgment on Mandate precludes him from entertaining defendant's argument that plaintiff is not entitled to recover his costs in the District Court, including his costs in this accounting.

Conclusion

38. The Master recommends that plaintiff be awarded damages in the amount of $17,500, with interest from the date of this report.

39. The Master suggests that he be allowed a total fee of $6,250 as reasonable compensation for his services in this accounting, and recommends that such fee be included in the costs to be taxed against defendant, pursuant to paragraph 8 of the Judgment on Mandate.

Respectfully submitted

/s/ THEODORE R. SCOTT,
Special Master

July 10, 1970

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FILED
AUG 9 1972
MICHAEL RODAK, JR., CLERK

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1972.

**No. 72-112**

ZEGERS, INC.,

*Petitioner,*

*vs.*

EDWARD A. ZEGERS,

*Respondent.*

## BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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THE GUNTHORP-WARREN PRINTING COMPANY, CHICAGO

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## BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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Respondent, Edward A. Zegers, plaintiff in the above identified civil action, in the District Court, opposes the petition for writ of certiorari to review the judgment and opinion of the United States Court of Appeals for the Seventh Circuit entered in this proceeding on March 20, 1972.

### JURISDICTION.

None of the grounds on which Petitioner attempts to invoke jurisdiction of this Court is sufficient because:

(1) This civil action presents nothing more than the usual patent accounting matters; and

(2) There is no conflict between the decision of the Court of Appeals for the Seventh Circuit in this

civil action and any decision of this Court, as contended by the Petitioner.

## QUESTION PRESENTED.

Petitioner incorrectly states that the question presented in this civil action is whether a plaintiff-patent owner, who cannot establish that he has been damaged by defendant's infringement, may nevertheless recover a reasonable royalty. The Respondent in this case *did** prove the *fact* of actual damage, so that the question asserted by the Petitioner is not presented by this civil action.

## STATEMENT OF THE CASE.

Petitioner's statement of the case is incomplete and erroneous in that:

(1) It fails to point out that the Petitioner is an admitted, willful, direct infringer;

(2) It indicates that Respondent was not in competition with Petitioner in the marketing of the patented clips for installing combination sash balance and weatherstrip units. This is contrary to fact, and is contrary to the findings of the Master. As stated by the Master (Appendix C, p. 19a), the Respondent

> ". . . did market a so-called half clip having the press-in channel construction *covered by claims 5 and 6* of the patent in suit (i.e., a press-in clip having a hook on only one end) *in competition with defendant's* [*Petitioner's*] *infringing clip.*"

(3) Petitioner states that the Master found that the Respondent did not attempt to prove the amount of profits lost by him, and thus Respondent "failed to prove any damages to him". This, also, is contrary to fact and is contrary to the Master's

* Emphasis added throughout, unless otherwise indicated.

findings. The Respondent did prove the *fact* of actual damage, but merely did not attempt to prove the *amount* of such damages, relying upon the "reasonable royalty" recovery of the patent statute (Section 284, Title 35 USC). This was specifically recognized by the Master. For example, the Master stated (Appendix C, p. 17a):

> "10. At the hearings on this accounting, plaintiff did not attempt to prove the *amount* of profits lost by him as a result of defendant's manufacture, use or sale of clips embodying the press-in feature covered by claims 5 and 6 of the patent in suit (hereinafter referred to as 'defendant's infringing clips'), asserting that the expense of presenting such proof was prohibitive.*

**REASONS FOR NOT GRANTING THE WRIT.**

Petitioner argues that the Respondent is not entitled to any award in this matter, even an award on the basis of a reasonable royalty, because the patent statute does not permit it. This argument is without merit, and, in fact, is directly contrary to the express provisions of the patent statutes which provide (Section 284, Title 35 U. S. C.):

> "Upon finding for the claimant the court *shall* award the claimant damages adequate to compensate for the infringement but *in no event less than a reasonable royalty for the use made of the invention by the infringer*, together with interest and costs as fixed by the court."

---

"* Plaintiff did, however, present evidence showing that various customers to whom he had previously sold combination weatherstrip and sash balance units had stopped purchasing such products from him and begun buying them from defendant, during the period when defendant was offering its infringing clips, *for the purpose of showing that he had suffered substantial actual damage by reason of defendant's infringement of his patent.*"

This section of the statute also provides:

> "... the court may increase the damages up to three times the amount found or assessed."

Thus, the statute is not merely permissive, but is *mandatory* in its provision that in an infringement action such as this the court "*shall*" make an award to the plaintiff which "in *no* event" is "less than a reasonable royalty *for the use made of the invention by the infringer.*"

The Petitioner's argument with respect to this matter seems to be that by the grant of a patent a patentee merely acquires the right to exclude others from making, using and selling that which is covered by this patent, and not the exclusive right to make, use and sell that which is covered by his patent, so that unless a patentee proves *actual* damages by way of lost sales, and the like, he has not proved that he has been damaged and is not entitled to any recovery, but is entitled merely to an injunction. This, of course, on its face, is clearly fallacious. In the first place, if a patentee has the right to exclude others from making, using or selling that which is covered by his patent, and another violates that right, the patentee has been damaged in his right to exclude. The statute does not state that the court will award "actual" damages, as Petitioner seems to argue. It states that the court *shall* award "damages adequate to compensate for the infringement" and then sets forth the specific provision that the award shall be "*in no event less than a reasonable royalty for the use made of the invention by the infringer*".

This argument of the defendant that a successful plaintiff-patentee is not entitled to any award unless it proves actual damages would preclude a successful plaintiff-patentee, who had never licensed others or manufactured under the patent from any recovery from a willful, wanton infringer. That, of course, is not the law. As stated by the Master (Appendix C, p. 20a):

"The statutory language is unequivocal, and does not say that a patent owner's right to recovery from an infringer is conditioned upon a showing that the patent owner sustained actual monetary loss or competitive damage from the defendant's infringement of his patent; on the contrary, the statute clearly contemplates that the patent owner shall recover either (a) damages adequate to compensate him for the defendant's infringement (in a case where those damages are susceptible of proof and exceed a reasonable royalty) or (b) a reasonable royaly on the use made of his invention by the defendant (in a case where the patent owner's actual monetary loss or competitive damage is not susceptible of proof or is less than a reasonable royalty). In short, any unlicensed or otherwise infringing use of a patented invention constitutes damage to the patent owner, in a legal sense, irrespective of competitive disadvantage from the infringement."

Furthermore, the Respondent did show that he had, in fact, been damaged, and the fact that he marketed a somewhat different clip from that of the Petitioner (both of which come under the patent claims in suit) is immaterial. As stated by the Master (Appendix C, p. 19a):

"Defendant's argument, however, ignores the uncontroverted evidence that plaintiff, though enjoined from marketing a clip having hooks on both sides, did market a so-called half clip having the press-in channel construction covered by claims 5 and 6 of the patent in suit (i.e., a press-in clip having a hook on only one end) in competition with defendant's infringing clip. Thus, the fact that plaintiff was enjoined from marketing clips that were identical to defendant's infringing clips is beside the point, for during the period when both plaintiff and defendant marketed clips having the press-in feature covered by claims 5 and 6 of the patent in suit, plaintiff necessarily sustained actual damage, in a monetary or competitive sense, each time any customer desiring clips having the patented press-in construction obtained them from defendant rather than from plaintiff."

At page 6 of its petition, the Petitioner cites the case of *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U. S. 476.

Thereafter, throughout its petition (pp. 6-12) the Petitioner discusses and quotes from Section IV of that portion of the opinion appearing at pages 477 to 484. Repeatedly throughout this discussion, the Petitioner refers to this portion of the opinion as the "opinion of the court", or with respect to specific quotations from Section IV states that "this court stated", and the like.

All of these statements of the Petitioner *are totally incorrect.* The portions of the opinion relied upon by the Petitioner, and quoted by the Petitioner, are not a portion of "decision of this court", and the "court" did not make the statements attributed to it by the Petitioner. They are portions of a *minority* opinion which is not a part of the "decision" of the Court. This is specifically pointed out in footnote 18, appearing on page 502.

Following the aforementioned citation of the *Aro Mfg.* case, Petitioner (at page 6) states:

> "A footnote to Section IV states that this part of the opinion expresses the views of Justices Brennan, Stewart, White and Goldberg, and that Mr. Justice Harlan considers that the matters dealt with in this section were not ripe for decision and should be left for determination in the future course of the pending litigation."

It is respectfully submitted that this statement is not enough to clarify the clearly erroneous impression afforded by the aforementioned repeated statements, and it does not justify crediting to this Court language which comes from a minority opinion thereof.

Furthermore, even the Justices of this Court, who joined in Section IV were not saying that actual damages had to be proved in order to recover a reasonable royalty under the statute. In the *Aro* case, Ford Motor Company had paid

the plaintiff $73,000.00; and the question being discussed in the aforementioned Section IV portion of the opinion was whether, under the present statute, the award to a plaintiff should be considered to be "damages" only or whether it could be considered to be "profits", *per se,* as it might have been under the earlier statute which provided for the recovery of both profits and damages. The reason for this inquiry was that if the recovery was limited to "damages" the payment by Ford also applied to the joint tort feasor, *Aro,* but if "profits as such" (p. 506) were still recoverable, the payment by Ford did not relieve Aro.

Thus, even this minority portion of the opinion was not stating that actual damages had to be proved in order to recover a reasonable royalty.

At page 10 of its petition, Petitioner cites an 1853 case (*Seymour* v. *McCormick,* 8 How. 480, 14 L. ed., 1024) as authority for the provision that "*actual*" damages must be actually proved. This, of course, is entirely immaterial. The Respondent in the present civil action relied on the reasonable royalty provisions of the statute for his recovery. As such, there was no burden on the Respondent to prove "actual" damages, although, as part of his proof as to what should be a reasonable royalty the Respondent did show that, when the Petitioner started infringing the Respondent lost certain customers, and after the Petitioner was enjoined from infringement he regained those customers.

## CONCLUSION.

The awarding of damages by the Court of Appeals for the Seventh Circuit in this case on the basis of a reasonable royalty was entirely correct. The grounds upon which the Petitioner seeks certiorari herein are not well founded. The petition should be denied.

Respectfully submitted,

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